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Will the Public Believe It?

Distribution Costs as a Budget Tool

Good Neighbor Accountants

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Certified Public Accountanis

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Will The Public Believe It?

BY M. J. BOEDEKER

Some progressive managements are publicizing the increasing costs of replacement of plants and demonstrating to the public why net income must be higher than when replacement costs were less if a concern is to stay in business on a sound operating basis. One prominent oil company ran a striking full page advertisement in a national magazine under the caption "Are Profits Too High?" After making the point that net profit for the first half of 1947 was more than double similar prior year periods, the advertisement went on to show, with telling effect, why, although "there's more money coming in, it doesn't seem to mean very much." Less than one-third of the net was paid out in dividends, and about 60% had to be spent on day-to-day replacement of equipment. Further "In 1941, for example, it cost us $12,000 to lay a mile of pipe line. Today it costs $30,000. In 1941 it cost $400 per barrel of capacity to build a piece of refining equipment. Today it costs $1,000. In 1941 we could build a service station for half what it costs us today. And the cost of replacing every barrel of crude oil we sell has tripled."

There is no doubt that the public should have such facts brought repeatedly and forcefully to its attention. Everyone's dollars and real purchasing power have shrunk, too, and the problem is easily understood. The man who, when his order is filled, will begin paying $25.00 a month for a year for a refrigerator to replace the similar one he bought some years ago for twelve $15.00 payments can readily grasp the parallel though the amounts are multiplied by millions. Obviously, to continue in business a corporation must realize more dollars for its economic services now than in the past merely to maintain such service and to provide for its continuance in the future.

There is, however, another viewpoint on the relation of replacement costs to profits. It is illustrated by a remark made recently by an economist who said "Yes, earnings *as reported* are generally high, but remember that depreciation *is understated*."

This viewpoint leads to another approach to the problem, and a

very natural approach it is. Its advocates say, in effect, "Instead of all this explaining about high profits and why they must be high to provide for replacements, why don't we reduce our so-called 'profits' to a realistic figure by putting in the added costs of replacements before we talk about profits at all. It's a simple solution and reflects actual conditions. How about it, accountants?"

These two divergent viewpoints and approaches embody a basic difference of opinion on the question of whether accounting statements should label the amounts required for replacements at high prices as "costs of the period" or as "profits of the period appropriated or set aside for replacement."

Accounting has always recognized and reflected management's action in "setting aside" funds, whether for replacement of fixed assets or acquisition of additional facilities, and whether at the same, or higher, or lower, costs. Surplus may be appropriated for the purpose, or a portion of net income for any year may be similarly appropriated (or "set aside").

Even more practically and appropriately, specific funds of cash or current investments may be earmarked, appropriated, or "set aside" to provide for replacement or expansion. This has, in fact, not been unusual in recent years.

What accounting practice has not sanctioned, however, is the charging off to expense, in a current year, of part of the cost of assets not yet acquired or in use. The accountant considers that the charging off of cost of assets bought in the past is one thing and that the provision for acquisition of replacements or additions in the future is another. Each is a fact, and a separate fact, and accounting strives to reflect facts to the extent they are ascertainable or can be reasonably estimated.

The Committee on Accounting Procedure of the American Institute of Accountants in its recent Bulletin No. 33 on this subject said, in part, "It has been suggested in some quarters that the problem be met by increasing depreciation charges against current income. The committee does not believe that this is a satisfactory solution at this time. It believes that accounting and financial reporting for general use will best serve their purposes by adhering to the generally accepted concept of depreciation on cost, at least until the dollar is stabilized at some level."

Whether federal taxes should be lightened on business enterprises in order to assist them in accumulating funds for replacements or additions to producing properties at high costs is another matter entirely. Possibly a business should be permitted to set aside a portion of its income untaxed if it reinvests such funds in capital assets, but this is a legislative, and not an accounting,

matter. While accounting provides basic data on which income taxes are determined, there are many questions as to the burden and incidence of federal taxes which are matters of governmental policy and not of accounting. If the accounting is sound, a sound basis is provided for the levying of income taxes, and the legislator rather than the accountant is responsible for the effect and equity of taxation policies.

There is another aspect to the accounting problem which seems to have had little publicity. The man in the street, the laborer, the voter, the atom (and do not overlook the well known power of the atom) of the public whose beliefs combine with others to constitute "public opinion," can understand higher prices, higher replacement costs, and the greater amounts required out of profits to meet these costs and to maintain efficient plants. But can he understand that a business sustained a loss *this year* because it will have to buy higher priced machinery *next year?* If he cannot, and the "depreciation on replacement cost" theory were followed, could we expect him to accept with trust and confidence the published accounting statements of business?

Great concern has been felt in business circles over the situation disclosed by a report of the Controllership Foundation, Inc. made in the spring of 1947. About 45% of the persons questioned in a national survey said "most companies actually make more than they report." This condition has caused many managements to consider how they can gain greater public confidence in their published statements. Will these efforts be assisted by giving the corporation baiter the chance to say, with truth, "they claim they have lost *this year* part of the machinery which won't even be built until *next year*?"

Aesop well illustrated many a point with his fables; could this be the case with

THE FABLE OF THE FOUR CABBIES

Pat, Mike, Gus, and Tony, all New York cabbies, driving for "The Company," met on New Year's Eve. Each had saved $2,000. Said Pat to Gus, "No more driving for The Company. Tomorrow morning we each get a new cab at $2,000 and go into business for ourselves." Mike and Tony wished them well, but each decided to hold on to his $2,000 in cash.

Came next New Year's Eve, and Pat and Mike got together again.

"Well, I sold my old hack tonight, and I get a new one in the morning," said Pat. "Took out the same amount for living expenses as you got from The Company and your tips, and here's $3,000 cash in my hand. That's a profit of $1,000."

"And all I have for my year's work is my living and the same

$2,000 I had last New Year," said Mike despondently.

"But you know, I'm not so sure of that profit after all, Mike. The old lady and the kids wanted me to take them to Atlantic City for a holiday, and I can't do it. The whole $3,000 goes for the new cab. Tomorrow morning I'll be just where I was last New Year's Day—sitting in my own brand new cab without a penny more than I had then. Maybe I just broke even."

"No, Pat, you're ahead of the game, even if you won't have an extra cent. You're in business and can go on and make a profit this coming year, though you'll have to hustle faster or charge higher fares," said Mike. "Look at me. I've still got my $2,000 but I can't get a cab like you can without going $1,000 in debt. So it's your profit that will keep you in business."

"Your $3,000 won't buy you any more than last New Year's $2,000," Mike continued "but that's the shrinkage of your dollars and it's upon us all, bad luck to it. Look at my $2,000, how it's shrunk. No, Pat, you're $1,000 better off than I am and its because you made a profit."

"Well, Mike, I suppose having to make a profit just to maintain myself in business is like the Red Queen in *Alice in Wonderland* who had to keep running fast to stay in the same place. I've managed to stay in the same place, at least, while you, poor lad, have fallen behind. Better luck next year. Drink up."

Being garrulous lads, Pat and Mike told all the details to the neighbors. All of them could understand the situation; they all were familiar with increasing prices and shrinking dollars. And they all agreed that Pat was $1,000 better off than Mike, as a result of his year's profit, even if the dollars were "66¢ dollars."

Now Gus and Tony had been having a similar New Year's Eve discussion but had reached a different conclusion. Gus had his $3,000 just as Pat had, and Tony, like Mike had $2,000.

"I'll have to put out this $3,000 for a new cab in the morning," said Gus. "I'm no better off than I was a year ago; I made no profit at all this year."

"But you've got $3,000, which is $1,000 more than you had then," responded Tony and added, a little sadly, "and you've sure got a $1,000 more than I have."

"It's not real profit, though," said Gus. "I can't spend any of it and still stay in business." Deep thought for a moment, then "I know what happened! Last year I suffered $1,000 depreciation on that new cab I'm getting tomorrow! That's the answer. I didn't make a profit, I just broke even."

"Well, if that's the case, Gus, how about me? I've got $1,000 less than you have. If you just

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Distribution Costs As A Budget Tool*

BY CLARENCE W. SCHELB

(Chicago Office)

Consideration of Distribution Costs at this time seems most appropriate because—

First, The war-expanded production facilities and related output will develop terrific competition in the future, probably resulting in reduced selling prices and reduced profits, or even losses;

Second, When profits are low or losses occur, management wants to know *why* and *who* is responsible, and the budget official is in an excellent position to *know;*

Third, A comparison of actual results with the budget should show the variations, not only in production costs but also in distribution costs, if the usual control over the latter costs is to be exercised; and

Fourth, The computation of distribution costs as a percentage of net sales is of minor value in computing the total unit cost of a product. That method is not cost allocation, it is cost relationship. It does not recognize cost differentials which should establish price differentials.

For the past several years industry generally has not been too conscious of losses, and in many instances the end of the rainbow may be several years away. However, recent headlines stating that—

> Pipe lines are being filled
> New models being advanced
> Salesmen being added
> Advertising programs being expanded
> Back logs being reduced
> Certain products are so plentiful manufacturers are beginning to cut prices,

sound a warning to an alert management, and the admonitions should not be taken lightly.

It would appear that the sleeping giant of competition is awakening and the day when salesmen sit on the mourners' bench may not be too far distant.

WHAT ARE DISTRIBUTION COSTS?

It is not the intention in these comments to become academic about the subject as we all know distribution costs are incurred in selling the product. For general accounting purposes they are broadly classified as, warehousing, shipping, selling and administrative expenses. They represent one-half of the pricing formula of "Cost to make and sell."

Like production costs, they are incurred either directly or indirectly.

Selling methods are highly specialized. In a broad sense the

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*Paper presented on December 12, 1947 before the Chicago Chapter of the National Association of Budget Officers.

methods include the functions of market research, sales promotion, advertising and publicity, warehousing, and transportation. Additional functions commonly classified as Administration such as, order writing, billing, credits and collections, are also distribution costs. Reliable distribution costs require that the various expenditures be properly classified by those functions.

The analyses of those costs obviously follow the nature of the business of the individual company. The amount of detail required is determined generally by the method of sale or delivery, by type of customers, that is, jobber, wholesaler, retailer chain store, etc., by territory, that is branch, district, etc., and by individual commodity or group, etc.

Some analyses may be prepared monthly, some semi-annually, some annually. It is assumed that judgment would be used in deciding whether the cost of this work justifies the result.

Recognition by Management of Value of Distribution Costs Needed

In some respects the detailed distribution cost techniques and mechanics are identical with production costs. There is, however, a vast difference in the importance placed thereon or the recognition given thereto by management. Detailed production costs are considered in determining results from operations, valuing inventories, and cost of sales, and computing operating and departmental costs, for budgetary control purposes. The same *must* consideration is not given, however, to distribution costs. In a great many respects those costs are like an orphan. A cause for this condition is indicated when a review of the literature on the subject of cost accounting is made. The starting point would probably be prior to 1890. The progress in this subject made since that date is outstanding. However, the development during the first thirty years was confined principally to production costs. This may be attributed to the fact that during that period "markets were seeking the product." Even to this day production costs receive more publicity and attention than distribution costs. Note the recent headlines pertaining to these costs of a prominent manufacturer.

"Slashes Labor Cost 60%—
Boosts Output 30%"

However, we see no headlines such as

"Increases Sales 30%—Reduces
Distribution Cost 60%"

With the advance of the machine age, production exceeded demand, and "products sought the market."

Since World War I more consideration has been given to distribution costs, and considerable

progress has been made in taking that technique out of the orphan class. Just prior to World War II there was considerable activity in this field. We are all familiar, for instance, with the Robinson Patman Act and various government regulations.

This does not mean that the fundamental differences between production and distribution problems are not recognized. Production depends upon an experienced *organization*, whereas selling depends more upon an ***individual***. The selling function has many imponderables not strictly comparable with the production function, probably because it is in a state of flux. Also, the accounting for activities of the sales organizations is often less developed than for factory operations. Much effort is devoted to controlling production costs but little to distribution costs.

What Should or Can be Done About It?

That question must have come to your mind. Accordingly, some suggestions may be in order. Unless you have an established distribution cost procedure you may consider,

First, Selling the management on the benefits to be gained from the analysis of distribution costs, just as benefits have been gained from the analysis of production costs;

Second, Educating the sales and administrative personnel as to the respective costs by function and their responsibility therefor just as the shop foreman or department heads have been educated to the importance of production costs; and

Third, Consideration might be given to using some incentive system in reducing distribution costs, comparable with the wage incentive systems used so successfully in shop operations.

How Can These Costs be Used as a Budget Tool?

Although literature on the subject may be scanty, it is sufficient to serve as a starter in an educational program. After all, the techniques and mechanics must be developed specifically for each company depending upon its conditions. All good cooks use the same basic ingredients but each one adds a little flavoring of his own.

Some parts of an actual case study may be helpful in showing how "first steps" were taken in developing certain analyses.

This manufacturing company had its problems, some manufacturing, some selling and, periodically, some financial. While the company had fairly good control of its production costs through a standard cost system, its distribution costs ran wild, just like Topsy. They were uncontrolled to the extent that they absorbed in excess of 80 per cent of the

gross profit. A review of those costs indicated that too little was known as to how they were incurred. There was no evaluation made of results in relation to the costs.

The approach to this problem was patterned somewhat after the procedure in localizing responsibility for production costs. If the *foreman* was held responsible for controllable costs in his department, then the *salesman* should be held responsible for *controllable* costs in his territory; and so on down the line, for each function.

The Chinese say that on a trip of a thousand miles the *first step must be taken*. This company did just that.

While sales territories had been established and customers had been assigned to salesmen, there was a lack of direction of their activities and no control over the respective costs. The itineraries crisscrossed and duplication of sales effort abounded. The salesmen had no concept of the selling costs in the respective territories. Accordingly it was felt that the first requirement was to reduce salesmen's traveling expense, *with the cooperation* of the salesmen. The first statement prepared, and which was prepared promptly each month thereafter, was a statement of *Gross Profit and Loss—By Salesmen* showing gross sales, returns and allowances, net sales, cost of sales, direct and indirect expenses by salesmen and each salesman's position as to profit and as to sales.

The second statement prepared was—*Gross Profit and Loss—By Customer*, then followed: *Gross Profit and Loss—By Territories.*

The information shown by the first analysis was electrifying. For instance, a "crack" salesman who continually was first in sales volume, was practically always last in total gross profit to the extent that the company was almost exchanging dollars, and accepting the risks as well, on this salesman's business.

The gross profit and loss statement by customers was likewise enlightening. It showed some undesirable customers demanding the lion's share of service at a sales price at which the company could not hope to make a profit. That analysis led gradually to a better choice of customers—by class.

The statement of gross profit and loss by territories showed the company was directing part of its sales effort to unprofitable areas. The result was to contract territories, and intensify efforts to increase sales in the profitable areas.

The subsequent budgets developed for Distribution Costs were classified on a *function* basis, as well as on an *expense account* basis. The cost of each function, by responsibility, became the primary budget tool for action.

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Good Neighbor Accountants

By John J. Fox

(Detroit Office)

Two trips to Sao Paulo, Brazil during the past year involving total airline travel of about 30,000 miles to audit the Brazilian Branch of one of our clients probably qualifies as one of the more interesting assignments handled for the firm in the past year. Those who made one or both trips included Peter S. Presta, William Skillman and myself from the Detroit office and Adam Sieracki of the Philadelphia staff.

Preparation for this trip involved reservations, visas, vaccinations, yellow fever shots, health certificates, photographs, police certificates and fingerprint records. Even more difficult was the problem of keeping our luggage within a 55 pound weight limit as we needed both warm clothing for the first lap of our journey and lightweight clothing to cope with Brazil's summer weather. We traveled by plane, leaving New York at 8:00 A.M. one day and arriving in Rio de Janeiro at 4:30 P.M. the following day.

Coffee is a national institution in Brazil, not only as the most important agricultural product but also as the principal means of social intercourse. It is made much stronger and thicker than its American counterpart, and is served black as a demitasse except at breakfast when a man-size cup is served. The morning and afternoon service of coffee in our client's office is the only interruption in an eight-hour day, forty-hour week. Perhaps in pausing for coffee the Brazilians are only recognizing what is unofficially being done in many American offices.

Portuguese is the native tongue; but Brazilians, fortunately for us, have more interest in foreign languages than we have. English is widely taught in the schools and we found that we could usually find someone who spoke our language "mais o menos," that is "more or less." In the conduct of our examination we required the services of an interpreter for the first few weeks. After that we had acquired sufficient knowledge of the language to examine vouchers and other papers. In dealing with non-English speaking employees and for the more complicated translations we found that the executives had a good knowledge of English and could give us the necessary assistance.

Variations in international customs and business practices came to light to interest and sometimes confound us. For example, we soon

found that cancelled checks are not returned by the banks. Instead, bank statements list check numbers and amounts. Most of the banks permitted us to examine the cancelled checks on the bank premises, although it is not considered standard auditing procedure in Brazil to examine the cancelled checks.

Clearing house facilities are limited and complex with the result that checks, especially on out of town banks, are not readily accepted in business. This results in a larger percentage of total receipts being in cash than would be found in the United States. Furthermore, each concern doing business on a national scale maintains a network of banking affiliations to facilitate collections.

In requesting confirmations of bank accounts and receivables we found that the wording of standard L. R. B. & M. forms could be readily translated into Portuguese. Although Brazilian auditors follow a similar procedure, the replies to our requests were poor. We used the positive type of confirmation request and repeated requests had to be sent in some cases. A large number of replies were sent directly to our client despite the specific instructions on the confirmation form that the auditors' envelopes addressed to our local address be used. Some confirmation requests were signed as being correct even though we later found errors in the balances as stated.

The requirement that every receipt issued be validated by affixing a tax stamp offered a convenient means of estimating the total of recorded cash receipts. Employment jackets containing photograph, fingerprints, personal and employment record of each employee, maintenance of which is required by law and which accompany the employee on any change of position, offered a valuable check on the authenticity of payrolls.

By an interesting, and to us unusual, provision in local labor laws it is mandatory to pay an indemnity for severance of employment. Any employee who is discharged with less than ten years of service is entitled to one month's salary for each full year employed unless the discharge is due to one of several specified offenses which must be proved in a labor court. Employees with more than ten years' service cannot be discharged unless they are found guilty of certain very serious offenses; nor can they be demoted or transferred to a less desirable position. The severance indemnities usually run into a considerable sum of money and as a consequence useless or disgruntled employees are sometimes found on the payroll.

American investors in Brazil find their income subjected to three taxes; transfer tax, income tax and excess profits tax. Foreign corporations are assessed a transfer tax of 10 per cent of the net profit for the

year as shown by the annual published statements of the concern. Brazilian corporations pay this tax only on dividends remitted to foreign shareholders.

The income tax of 8 per cent is computed on adjusted net income. Principal adjustments required are elimination of the allowance for depreciation on buildings and land improvements and additions to reserves which are not deductible. Payments from reserves are deductible. The excess profits tax is based on the same adjusted net income as the income tax. From this net income may be deducted an excess profits credit computed under one of three methods:

A. Base period average net income plus 50 pct.

B. Percentage of capital effectively applied in the business ranging from 30 pct. on the first $50,000 to 15 pct. on capital over $500,000.

C. Percentage of gross receipts, ranging from 4 to 6 pct.

Of the net income remaining after application of the above credit, which may be computed under the most favorable option each year, 20 per cent must be paid as excess profits tax, 50 per cent must be deposited with the Banco do Brasil for two years and the remaining 30 per cent must be retained by the firm and may not be distributed as dividends for a two-year period.

The above provisions apply to 1947 and preceding years. Effective in 1948 tax simplification has been introduced and the above taxes are being replaced by two taxes, a 15 per cent transfer tax and a 15 per cent income tax.

There is no carry-back or carry-forward provision in the Brazilian tax laws. Of particular interest is the provision that income taxes are deductible expenses although the requirement that the deduction belongs to the year of payment rather than to the year in which the income was earned seems to result in gross inequities to firms with fluctuating income.

Accountancy is a well established occupation in Brazil. The law requires that all firms publish annual statements which must be signed by a registered "contador" or accountant. The principal requirement for registration as a "contador" is graduation from one of the numerous commercial colleges. There are over 50,000 registered "contadors" in the State of Sao Paulo. There is, however, a higher echelon of the profession known as "contador perito" which is translated literally as "expert accountant." This title is generally equivalent to our C. P. A. degree. A number of English and American accounting firms have branches in Brazil. However, the present tendency seems to be to put legislative obstacles in the path of foreigners seeking to practice public accountancy in Brazil.

Accounting literature consists primarily of translations of foreign

works. These are generally expensive. We saw a translation of Professor Paton's *Accountants' Handbook*, priced at $40.00, in a bookshop. We found one monthly accounting publication *Revista Paulista de Contabilidade*. This seemed to be an excellent magazine and many of the discussions contained in it would not be out of place in *The Journal of Accountancy*.

Brazil is a rapidly growing market for foreign products. Equipment of all types is particularly in demand and consumers' goods find a ready market. With an area the size of the United States and a third the population, with tremendous undeveloped natural resources, the economic development of the country seems inevitable.

Will the Public Believe It?

(*Continued from page 4*)

broke even, I must have lost $1,000, didn't I?" said Tony plaintively.

"Sounds logical. If I'm even and you're $1,000 worse off you must have lost $1,000," concluded Gus.

So they likewise told all the neighbors, and to their surprise no one could see it their way. Gus argued and stormed, with his $3,000 in his right hand and his invisible $1,000 reserve for depreciation clutched tightly in his left.

"Look, Gus," said old man Hardfax. "You started with $2,000 cash, didn't you?"

"Yes, but —"

"And you've got $3,000 in your hand now, haven't you?"

"Yes, but it won't buy —"

"I know. Neither will my dollars buy what they did. *But as long as you're talking and figuring in dollars* you've got $1,000 more than you had last year. That's dollars of profit, ain't it?" asked the old man.

"But the depreciation on my new cab, $1,000 —"

"That you'll get next year when you begin driving it. And mind you, work harder or charge more or you'll find yourself losing money, my boy."

Along with all the other neighbors he turned away from the sputtering Gus. "No profit, indeed!" said one. "You know, I think he was trying to flimflam us. I don't think I'll have much confidence in his stories from now on."

As for Tony, he found that no one would listen to his tale of how he started with $2,000, ended with $2,000, was $1,000 worse off than Gus who hadn't made a profit, and so had lost $1,000. He ended muttering to himself, and at last reports, imagined he was the economic commentator for the *Daily Worker*.

Moral: It sometimes pays to do things in a way that most people can understand.

The L. R. B. & M. Journal

Published by Lybrand, Ross Bros. & Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvements; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

Fifty Years

Fifty years ago—on January 1, 1898, to be exact—the firm of Lybrand, Ross Bros. & Montgomery was founded in the city of Philadelphia.

At that time public accounting was in its infancy, almost unknown to the general public. However, the succeeding half century was a period of rapid growth and development for the profession—as it was for business generally—and during this time the profession achieved a place and standing in the business world never dreamed of when the firm was organized.

Believing that a history of the firm during the past fifty years, and the part it has had in the development of the profession, would be of interest to readers of the Journal, it had been planned to publish a special anniversary

issue at this time. Unfortunately, it has not been possible to prepare the desired articles for the current issue. However a subsequent issue of the JOURNAL will be devoted to the commemoration of the Fiftieth Anniversary.

Quarter Century Club—Boston

Members of the Quarter Century Club of the Boston Office were guests of the partners at a luncheon on December 24 at the Union Club of Boston. Mr. Francis E. Moore, a senior staff member, was inducted with proper ceremonies and presented with a gold watch in recognition of his twenty-five years of association with the firm.

Miss Ruth H. Snow, in charge of the comparing room, has also completed twenty-five years of service, and likewise was the recipient of a gold watch.

Quarter Century Club—New York

On the evening of December 10, 1947, the Quarter Century Club, L. R. B. & M., New York, held its fourth annual meeting at the Hotel New Yorker and welcomed Mr. Dewey D. Pierce into full fellowship. Dewey is our thirteenth member, making a "baker's dozen" of us who have "seen it through" during one or more wars, inflations, depressions, and other upheavals.

As we take just and proper pride in our long association with the firm, we are reminded that Mr. Lybrand takes top honors in the number of years of devoted service to the firm and to all of us. It is our hope and prayer that he will be with us for many more years, to lead us and to inculcate in us those sound accounting principles which apply alike to our personal lives and to our professional practice.

Mr. Sydney A. Stahlschmidt was elected to be our president for the forthcoming year. We wish him every success in this and in all other respects.

R. F. G.

Notes

Boston Office

Mr. Sweet has been reappointed a member of the Executive Committee of the American Institute of Accountants, Mr. Perry has been reelected to the Board of Examiners of the Institute, and Mr. Harvey has been appointed a member of its Committee on State Legislation.

The following are serving on committees of the Massachusetts Society of Certified Public Accountants: J. B. Fyffe, member of News Bulletin Committee; A. E. Hunter, Chairman Committee on Special Activities; F. E. Moore, Chairman Committee on Education; J. K. Sanborn, Chairman Committee on Accounting and Auditing Procedure and H. N. Sweet, member of Committee on Cooperation with Bankers, Bar Associations and Others.

Mr. Hunter was recently elected a director of the Massachusetts Federation of Taxpayers Associations, Inc., which actively represents the interest of the Massachusetts taxpayer at the state level. He has for a number of years been active in the Taxpayers Association of Needham, Massachusetts, and is serving his second term as president of the Association.

Chicago Office

Mr. Clarence W. Schelb spoke on the subject "Distribution Costs as a Budget Tool" at the first meeting of the Chicago Chapter of the National Association of Budget Officers, held on December 12, 1947 at the Stevens Hotel. Mr. Schelb's paper appears in this issue of the JOURNAL. Mr. E. W. Buge, a former member of our staff, now editor of *The Budget Roundup*, was instrumental in organizing the National Association of Budget Officers.

Mr. Clyde B. Absher is presently Mayor of the City of Downers Grove, a Chicago suburb. Mr. Absher was serving as an elected alderman of the city and, upon the recent death of the Mayor, was the unanimous choice of the City Council to take over the Mayor's post.

Mr. P. M. Armitage spoke at the October, 1947, meeting of the Kalamazoo (Michigan) Accountants' Association on the subject of "Trends in Presentation of Financial Statements." Last spring he addressed the same group on the subject of "Internal Control."

Mr. Miller is Chairman of the Committee on Admissions of the Illinois Society of Certified Public Accountants, Mr. William D. Buge is Chairman of the Committee on Cooperation with Bankers and Other Credit Grantors, Mr. A. H. Degener is Chairman of the Budget Committee and a member of the

Committee on Technical Meetings, Mr. C. W. Schelb is a member of the Education Committee, and Mr. E. C. Sweedler of the New Members Committee. Mr. Carl W. Lutz was elected a director of the Society for a two-year term ending in 1949.

Cincinnati Office

The following have been appointed to committees of the Ohio Society of Certified Public Accountants:

Fred C. Dennis—Committee on Law Enforcement and Ethics (for the fourth year)

Charles L. Schmidt—Committee on Meetings (Mr. Schmidt is also President of the Cincinnati Chapter of Certified Public Accountants)

Mr. Charles L. Schmidt is serving as an instructor in the Evening College at the University of Cincinnati in Advanced Accounting.

Mr. Willis K. Waterfield is an instructor in Auditing at the Evening College at the University of Cincinnati. He also instructs a class in Accounting Problems of Non-Manufacturing Organizations at the Evening College at the University of Cincinnati.

Mr. Joseph H. Eversmann is instructor in Advanced Accounting at the Evening School at St. Xavier University.

Mr. George L. Schlegel has obtained his Ohio C.P.A. certificate.

Cleveland Office

Mr. Kork was recently appointed Chairman of the Committee on Accounting Education of the Ohio Society of Certified Public Accountants.

Detroit Office

Six members of the Detroit staff have recently returned from trips to South America and Mexico; Messrs. Broughton and Mack at Buenos Aires, Fox and Skillman at Sao Paulo, and Shuttie and Mazurek at Mexico City. These men spent about three months at the respective locations.

H. G. Huffmon presented a talk on "Auditing of Internal Control" to the accounting classes at Wayne University on December 9, 1947.

Mr. Russell participated in a panel at a meeting of the Michigan Association of Certified Public Accountants on December 11, 1947, and discussed Accounting Research Bulletin No. 30 on Current Assets and Current Liabilities.

Louisville Office

Messrs. Paul F. Halloran, J. Wesley Huss, Harold W. Glore, and Forrest T. Dalton are serving on committees of the Kentucky Society of Certified Public Accountants.

Mr. Huss led the discussion at a Problems Dinner on Accounting and Taxes held by the Louisville Control of the Controllers Institute

of America on December 17, 1947. Mr. Halloran was recently a special guest of the Indianapolis Control.

Mr. Huss has been reappointed a member of the Committee on Municipal Accounting of the American Institute of Accountants.

New York Office

Mr. Richardson was one of the speakers at the final session of the Annual Tax Institute, sponsored by the Jacksonville Chapter of the Florida Institute of Accountants on November 20, 1947. His subject was "Long Range Trends in Federal Tax Policy."

On December 8, 1947, Mr. Richardson addressed the Williamsport Chapter of the National Association of Cost Accountants on the subject "Tax Treatment of Unusual Items of Business Income." He also delivered a lecture on "How to Get Your Greatest Deduction for Advertising Costs, Business Development, Research and Similar Costs" before the New York State Society of Certified Public Accountants on December 23, 1947.

Mr. Richardson was recently appointed Chairman of the Committee on Federal Taxation of The American Institute of Accountants.

Mr. Theodore R. Pleim has been elected to membership in the New York State Society of Certified Public Accountants.

San Francisco Office

Mr. Walter G. Draewell has been appointed a member of the following committees of the American Institute of Accountants:

Committee on Nominations
Committee on Coordination of State and National Organizations

On December 10, 1947, Mr. Claude R. Giles read a paper on "Modern Internal Auditing and Its Development Over the Past 25 Years" before the San Francisco Chapter of the Institute of Internal Auditors.

The following members of our organization have been admitted to membership in the American Institute of Accountants:

Charles T. Beach, New York
Clifford J. Code, Detroit
Philip Comer, Philadelphia
Harry E. Dieter, New York
John A. Hilbert, New York
Benedict C. Kastner, Baltimore
William J. MacIntyre, New York
Edward J. Pomfret, Philadelphia
Robert F. Purcell, Seattle
Timothy P. Reardon, Philadelphia
Foster L. Reed, Pittsburgh
George L. Schlegel, Cincinnati
Seymour J. Smith, New York
Richard H. Spinning, Atlanta
John M. Thompson, Jr., Philadelphia
Benton B. Wilde, Philadelphia
Robert M. Yerion, Seattle

Distribution Costs as a Budget Tool

(*Continued from page 8*)

The salesmen gradually became "profit conscious" rather than just "volume conscious." Their efforts were rewarded with a bonus, paid quarterly, based on budget savings. The spirit of the distributing and administrative organization was boosted considerably.

A subsequent analysis of the billing function showed that 38 per cent of the total number of invoices written represented 6 per cent of the dollar amount of sales. As a result of this analysis, price differentials on small orders were increased, encouraging the placing of larger orders.

As a by-product of that analysis, a wage incentive plan was developed for billing machine operators. The back log of unbilled orders soon was reduced to a minimum.

Not too much additional effort was required to secure this information, because of the wholehearted support given to the program by the individuals who were responsible for the respective functions.

Mechanical equipment aided in the prompt preparation of the various statements. For instance, sales invoices were priced at standard cost and machine-tabulated daily. As the various classes of selling expenses were recorded they were classified according to the detailed classification of accounts established by function, product, etc. Costs were applied directly wherever possible; accordingly indirect or general costs were reduced to a minimum.

The foregoing analysis, while far from complete, established a Distribution Cost consciousness within the organization which greatly assisted in the enforcement of the budget.

If the budgetary control followed by a company is to be an effective tool of management, one cannot be blind to the necessity for providing adequate statements of distribution costs to the individuals responsible therefor in the same manner as is done for production costs. Why not use cost accounting for all phases of the business where it is adaptable?

Lybrand, Ross Bros. & Montgomery

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PITTSBURGH 22	Oliver Building
DETROIT 26	Book Building
CLEVELAND 15	Midland Building
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LOUISVILLE 2	Heyburn Building
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